RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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Feb. 23, DJIA 823.28; PTI 905; A-D ratio –20.59

CARTER REELS as foreign and domestic events spin out of control

The U.S. appears powerless to influence Iran's revolution. Some Europeans ridicule Washington's inability to defend its embassy. Carter needs Saudi help to pressure Egypt for peace with Israel, but the Saudis grow nervous about declining U.S. power in the Persian Gulf region. Mexico's chilly reception is a slap at the President's prestige. He can't expect much help on oil or immigration.

Experts predict tight supplies of gasoline and home-heating oil for months; Carter agonizes over distasteful proposals to force conservation or spur output. "If he doesn't get his act together, he'll be a one-term President," predicts GOP Rep. Brown of Ohio. Democratic economist Arthur Okun warns of "a new nightmare scenario," with increased inflation and recession danger, if Iran's oil doesn't flow freely before 1980.

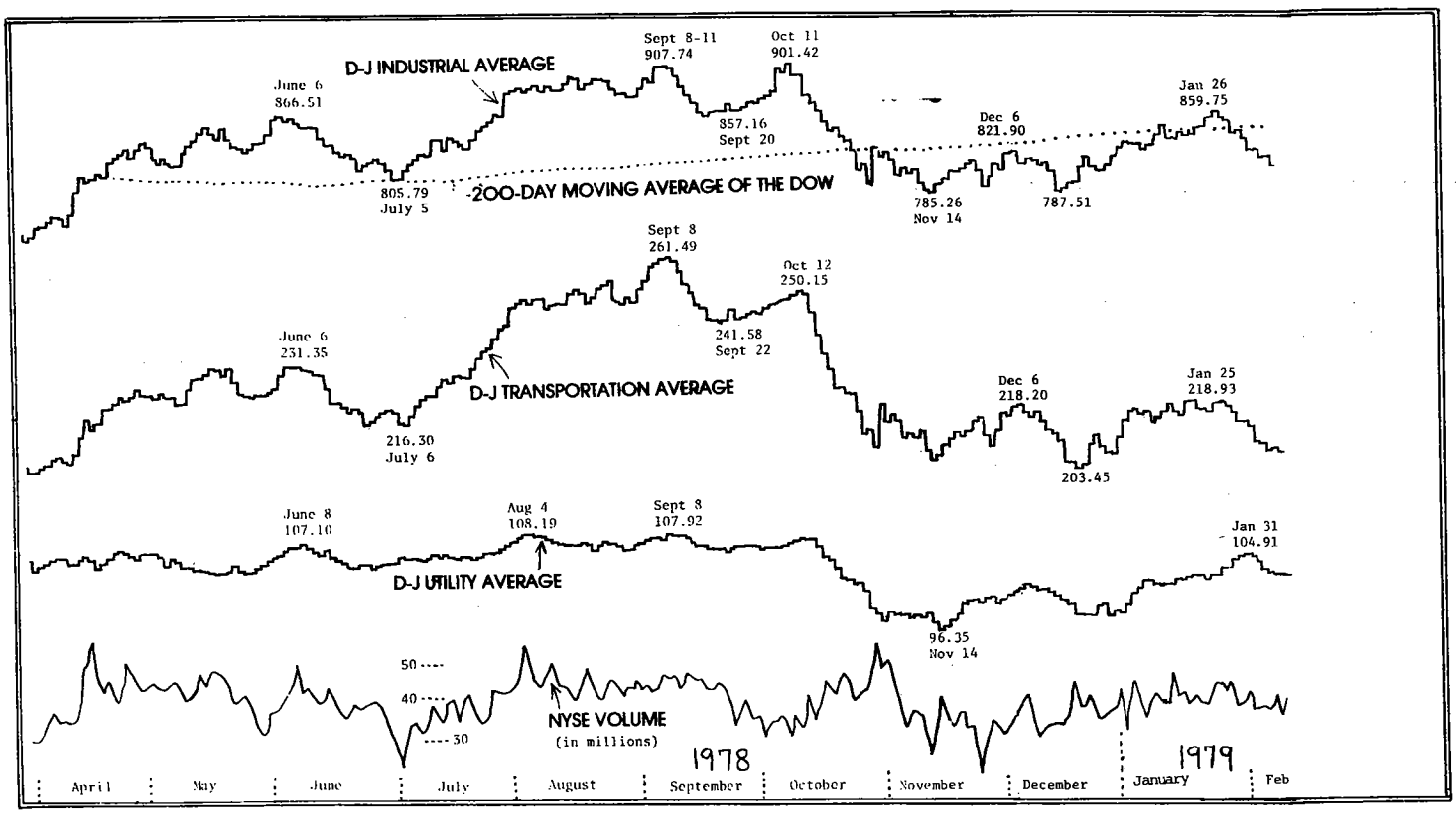
Carter suffers inescapable political damage. He'll find it much harder to sell a SALT treaty to the Senate with Russians stirring trouble in Iran and Afghanistan.

SOURING SEVENTIES: No, this isn't a clipping from the Russian newspaper, Pravda, and it isn't a page from some arch-pessimist's forecast of "things to come." It's a section from the February 16 (page 1) *Wall Street Journal*. And I ask myself, "What does it mean?"

And the answer, I believe is that what we're seeing and reading about today is truly the fruit of "the deficit tree." When a nation (or a man or a company) spends more than it takes in, then it is generating a deficit. When those deficits continue and when they pile high enough, then the situation moves towards a condition called bankruptcy. A bankrupt is an entity that has lost financial credibility. The US is moving towards that state–very rapidly.

I write about these things, not only because they will affect all my subscribers and me, but because they have a direct bearing on whether this society and its free enterprise system will last. For I firmly believe that a man has to fight for what he believes in. Well-meaning international friends tell me that I should move to Switzerland, buy a condominium in the Bahamas, investigate Aruba, escape to the Caymans. I tell them that if the US goes, "it all goes." The US is the last powerful bastion of freedom in the world. If the US can't make it, then what's the sense of hiding out in Bermuda on the theory that "they" will leave little Bermuda alone. Because "they" won't!

Last week (because of a letter I had written), Governor Brown of California called, and we talked for almost an hour. I told him that the spending and deficit policies of the US are leading the nation to disaster, and I told him that the threat (or the reality) of a Constitutional Convention to mandate an end to deficits was, in my opinion, the way to go. I've given up on politicians ever doing the right thing. And I am afraid that the free enterprise system may collapse BEFORE the US decides to move to a gold-backed currency. I told Governor Brown that I am afraid the time is growing short.



The US policy on oil and energy has been an unmitigated disaster. Had the free market been allowed to operate in the oil industry ten years ago, we would have no energy problem today. We might have had 75-cent gas five years ago, but we would have had plenty of gas today. As it is, we're going to have $1.50 gas coming up–and not enough of it, and we're going to be at the mercy of OPEC to boot.

Last week I spoke at the huge Ruff Times convention in Anaheim and many of the speakers and most of the crowd were thinking in terms of survival. Well, I'm not convinced that the way to go is a thousand pounds of dried pinto beans in the basement and a .357 magnum in your lap. Mind you, I'm not against that and I'm not against a "survival cabin" in backwoods Oregon. But I'm afraid that the logical outcome of four decades of American inflation, deficits and stupidity is going to be either war or an economic and political "Czar" (my polite phrase for dictatorship).

There are those who tell me that the US has been blessed and "chosen" by the powers above. They tell that no matter what happens, the US is the jewel in the eyes of God. Maybe so, but I happen to believe that man's purpose on earth is to advance, to acquire wisdom, to evolve. And any psychologist will tell you that people learn and move forward through frustration and through pain. If it takes pain and frustration to bring America to its senses, then I predict some very rough times ahead for the US. We've avoided pain (and even unpleasantness) for the past 35 years. Now the party's coming to an end, and we have to START growing up.

All this aside, I try to separate my opinions and my worries and misgivings from my cold, unemotional studies of the markets. Because no matter what the shape or form of Richard Russell's dreams and nightmares, the *markets* are where the true stories are being told. Those relentless little lines on the charts "say it all." They say it all because they are the net accumulation of what **everybody knows** about anything which can affect the stocks, bonds, commodities and securities of the world.

Then there's the story about the fellow who calls his broker and says, "Manny, I've been worrying about the stock market. Tell me frankly, where do you think this market's going?" And Manny's eyes roll heavenward as he answers, "You want to know where it's going? Honest, Chick, I don't even know where it's been!"

Every six months or so, I like to look at the various markets and talk about what's happening and where they might be going. In view of that, let's start with the stock market and the NYSE.

MARKET: We're watching a strange stock market, and as I've said before, a stock market that doesn't intrigue me. It's been 53 months since the last major over-sold bottom, and March will mark the first time since World War II that the stock market was able to go past 52 months without recording an historic bottom. Rather than accepting this as an important bullish feat, I see the situation as unattractive (if not actually dangerous). The reason is simple: each month that goes by from here simply extends the record time span, but each month that goes by also INCREASES the danger that the market will start to head down towards a classic over-sold bottom. I might add that from my studies of the markets, it's reasonable to conclude that the LONGER the forces militating towards a classic low are held back, the more violent and drastic will be the ultimate decline leading to the "long lost bottom."

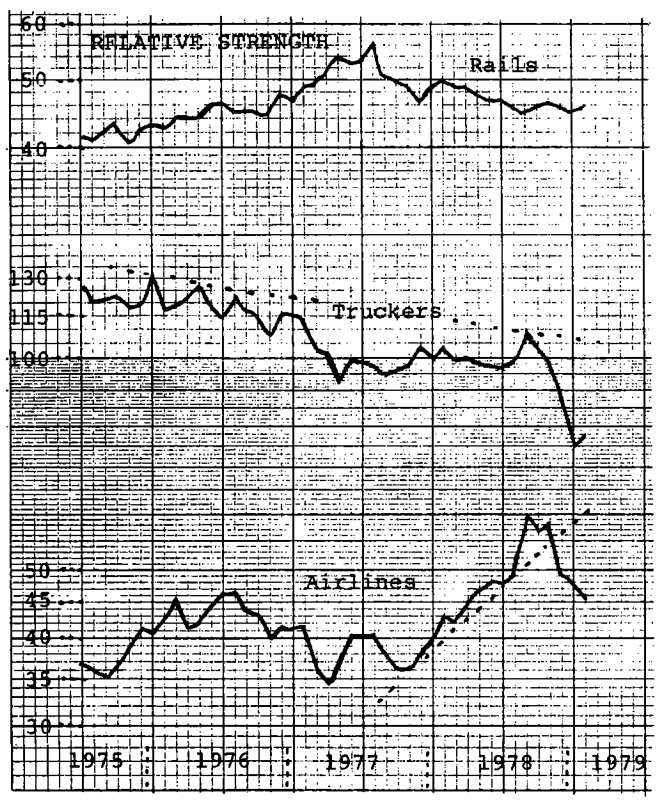
As far as the Averages are concerned (see page 1 chart), nothing particularly dramatic has happened since the last Letter. Bulls are saying that the market has acted "beautifully" in the face of a seemingly endless parade of rotten news. Bears comment that "you haven't seen the bad news yet, wait until the economy starts to fracture."

As far as Dow's Theory is concerned, the two Averages (Industrials and Transports) have not "said" a thing in many weeks. From the bullish standpoint, Dow's Theory would require an advance by the two components above their recent peaks, Industrials above 859.75 and Transports above 219.86. From the pessimistic side, a joint breaking of the late-1978 lows of 785.26 and 203.45 would constitute a reconfirmation of the primary bear trend.

The Utilities, often a bellwether Average, recorded a high of 104.91 on January 31. They then backed off, and more recently have gone "dead." A sensitive indication of "things to come" would be signalled by a Utility rally above 104.91 (bullish) or a decline below 102.50 (bearish).

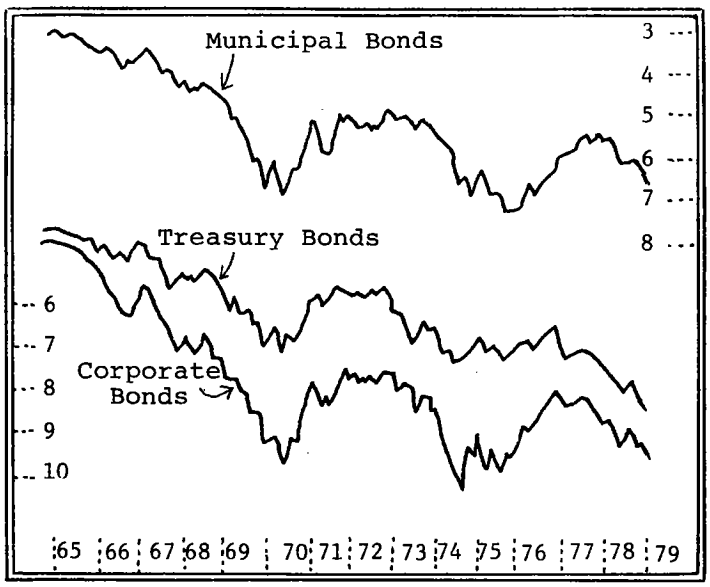
I run the three components of the Transportation Average on a relative strength basis (I compare them with the action of the S&P 500). It is of interest that all three components are now showing poor relative strength. Having moved down, RS for Rails is now going sideways so that Rails are acting about the same as the market. Truckers have been acting very poorly as you can see. Perhaps most important, Airlines, which performed very well during most of 1978, have turned decidedly bearish on the RS chart. Since these three carrier groups are extremely sensitive to forthcoming trends in freight movements, the patterns seen here are not hopeful for either the market or the economy.

It may be worth noting that at last October's high, the PTI (chart not shown) climbed to a new high. But the new PTI high was not confirmed by the Dow or the A-D ratio. That technical failure preceded the dramatic October-November smash.



On February 20 the PTI bettered its preceding January high. And again the Dow and the A-D ratio refused to confirm. Whether this latest non-confirmation is fated to be followed by the kind of downside action we saw during October and November remains to be seen. What is clear is that the Dow is acting "heavy," and it does not want to confirm my other indicators on the rallies.

Conclusion: Strategies should remain the same as I have been advocating in recent Letters. The risk-reward on the upside for the investor is NOT GOOD at this time. Traders have been systematically shredded by these markets. Therefore, please remain largely in T-bills with 10% or around that figure in Gold. As potential buyers of stocks or bonds, our chance will come somewhere ahead (probably around July, 1979). In the meantime, confine your gambling urge to playing poker with your spouse or parents. That way, if you loose it will at least remain in the family.



BOND MARKETS: Shown here are the three major classifications of bonds. The bonds are shown in terms of inverted interest rates, since the higher the bond price, the lower the yield; the lower the bond price, the higher the yield. As you can see here, bonds in general have been moving down in price. As they decline, their respective yields rise.

The municipal bond index hit its low in 1974, at which point many muni's were providing huge tax-exempt yields of 7% or more. A rally took this index back to the low 5% area, and more recently the muni's have been heading down again. Nevertheless, the 1974 lows have held.

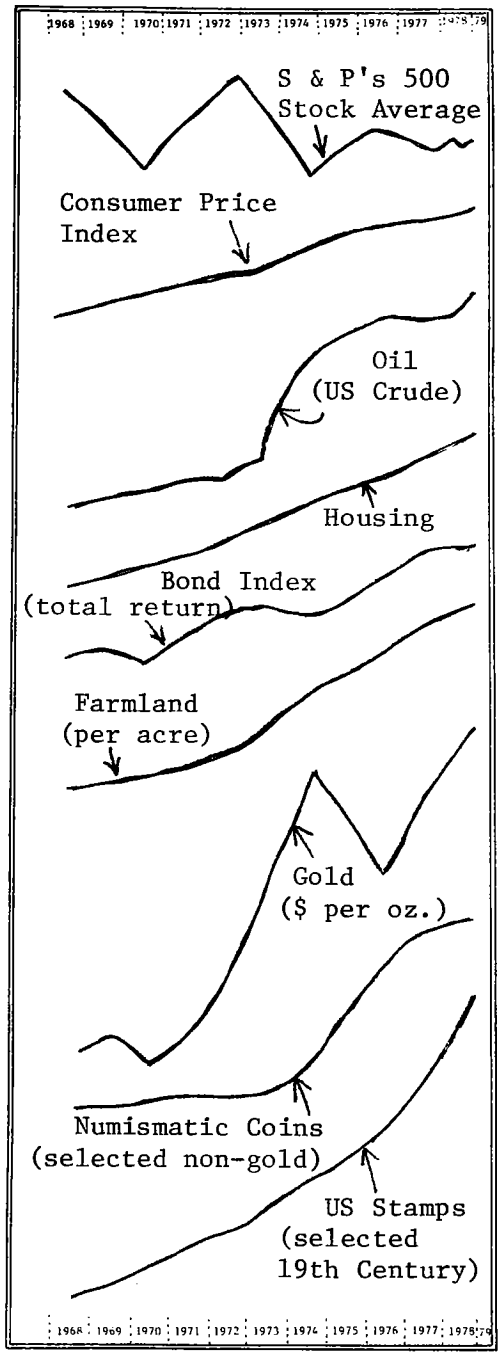
The same can be said of the corporate bond index. The Treasury bonds have had the worst performance of any of the three categories. As you can see, the Treasury index is now at its lowest point in history, with many individual long-term Treasury bonds now providing yields of 9% or better. Continued pressure in the Treasury area will put pressure on all other bonds, and that is what has been happening during 1979.

A new pressure, in fact, is now hitting the Treasury market and it is the liquidation of US debt by foreign holders of US securities. A good deal of the US debt over recent years had been "financed" by foreign purchases of Treasury bonds. If these purchases are now decreased or if actual liquidation of foreign held US debt takes place, then the Treasury will have to tap the domestic markets for additional cash. And it looks as if that is what is about to occur.

As a matter of interest, on February 20 the Treasury 8's of 2001 (which we watch closely here) hit an historic low bid of 90.8. On Feb. 23 they broke 90 for the first time! If you're in bonds at this time, please follow my instructions–and get out!

"THINGS": This is a chart that I laboriously keep up year after year. All items are plotted on ratio-scaled chart paper so that all equal percentage moves on the chart take up an equal amount of vertical distance (for instance, a rise from 30 to 45 takes up the same distance as a rise from 200 to 300). In this way all items can be correctly compared.

With the current upward roar in commodities, the flight from equities and debt and paper and into things–is complete. Put it this way, if you can hold it, get into it, store it or stand on it, then it's a 1979 item. If it's green paper or if the Government can steal it from you, no one wants it. Such is the happy world of the late-1970's.


1968 1969 1970 1971 1972 1973 1974 1975 1976 1977 1978 79
S & P's 500 Stock Average
Consumer Price Index
Oil (US Crude)
Housing
Bond Index (total return)
Farmland (per acre)
Gold ($ per oz.)
Numismatic Coins (selected non-gold)
US Stamps (selected 19th Century)
1968 1969 1970 1971 1972 1973 1974 1975 1976 1977 1978 79

Big Market Rise For Rare Stamps

Ceres: Now worth up to $1,10

In the last six months 1978, the rare-stamp mark went through the roof, wit a 30 percent rate of a preciation. A recent Salomo Brothers report listed stamp after Chinese ceramics as th best hedge against inflatio Why the sudden leap fro an annual rate of 15 perce before 1977?

"There are thr-e reasons says Frank Trum -ver, pul lisher of Scott Cata- gue, th bible of philately. "First, th influx of European buyers i the American market, owi to the depreciation of the dc lar. Second, the promotion stamps as an investment f people disenchanted with th stock market. Third, son old-time stamp collecto have found their person collections so valuable th they've gotten into dealin

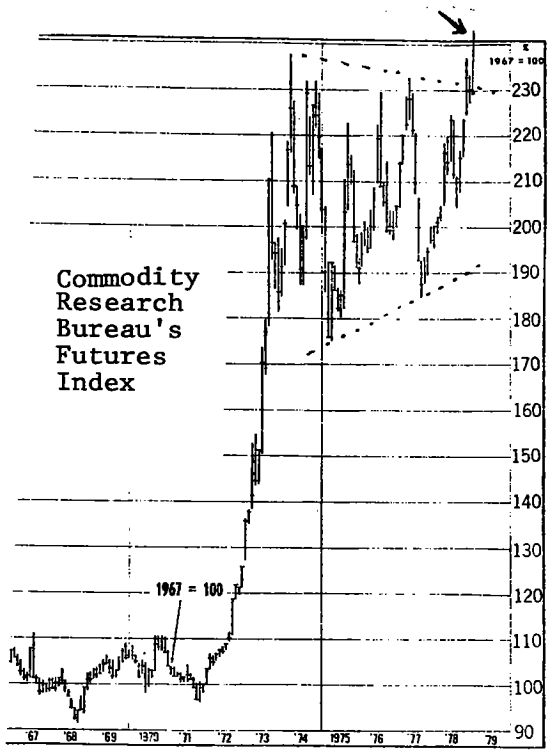
"Naturally, prices alwa jump when increased dema confronts a fixed supply lil rare stamps. Many peop have put millions into stam in the last three years—a most likely they'll make m lions if they stay in f another ten years."

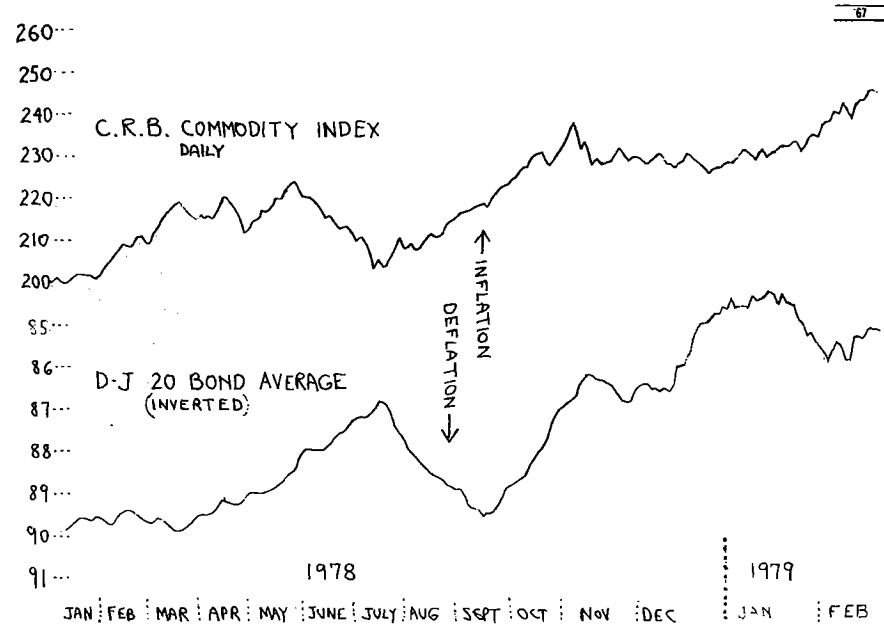
The chart is self-explanatory. A loser is the S&P 500 stock average. Another loser is the Bond Index (even in terms of total return).

The star performers on the chart are gold and (this may come as a surprise to you, if you're a new subscriber) rare stamps. To check my statements, all you have to do is place a ruler at the low of 1968 and the peak of late-1978. The slope of the ruler tells you the story.

Interestingly, both gold and rare stamps are in the "true money" classification. Gold has always been real money whereas stamps (with an auction or two every day and 8 million collectors in the US) have literally become an "alternate form of money." Coincidentally with the writing of this piece, I noted this little article on rare stamps from the February 12 issue of *New York Magazine*. I thought it was interesting enough to include.

If you're interested, Myron Kaller & Associates provides expert information on stamps. And I believe Mike still offers his "stamp kit," which is a packet of very useful stamp information (333 N. Broadway, Jericho, NY 11753).



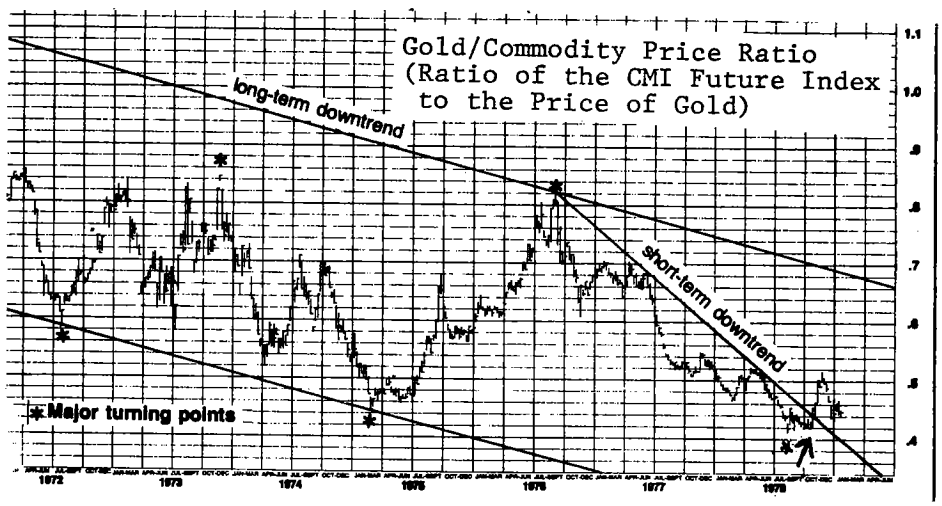


The commodities have been exploding over the past few weeks, and from a trader's standpoint commodities are now "the only game in town." As you can see on the monthly chart (top right) of the CRB index, the massive triangle which has been forming since 1973 has now broken out on the upside. I've talked to commodity people all over the nation, and most expect a strong movement out of this area. The split seems to be on the question of timing. Some bulls expect a "longer move" of perhaps three to six months while others expect a "flash blow-off" of perhaps four to six weeks.

As far as my subscribers are concerned, be advised that the commodity markets are now super-volatile, and they are a place for experienced traders only. When you're dealing with gapping prices and runaway moves, you are also dealing with sudden reversals and limit-down corrections. But right now, "commodities are where it's at," make no mistake about it. And of course the war news and the oil news are not exactly soothing the commodity markets!

COMMODITY-BONDS: Two areas which are intensely sensitive to inflation are bonds and commodities. Since interest rates are actually a function of inflation, it stands to reason that as inflation heats up, interest rates rise and bonds decline. By the same token, when inflation decreases interest rates tend to decline and bonds rise. For this reason, I keep a chart of the D-J 20 Bond Average (daily). I invert the Bond Average so that as inflation intensifies, as interest rates rise, the Bond Average on the chart also rises. The reverse is true as inflation subsides.

Note that the Bond Index hit a peak (inverted, so it was actually a low) during mid-January. The 20 Bonds would now have to go to 84.10 to break out to a new peak (pointing to increased inflation).

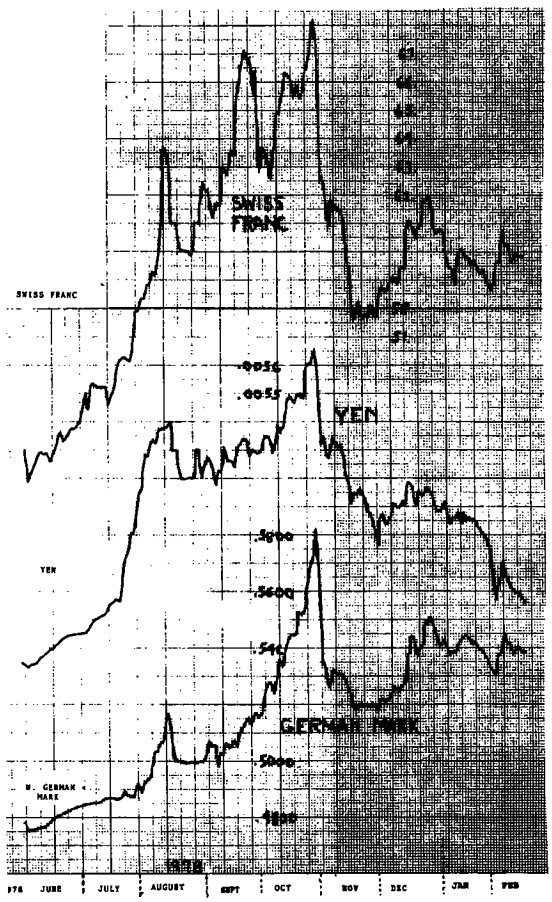


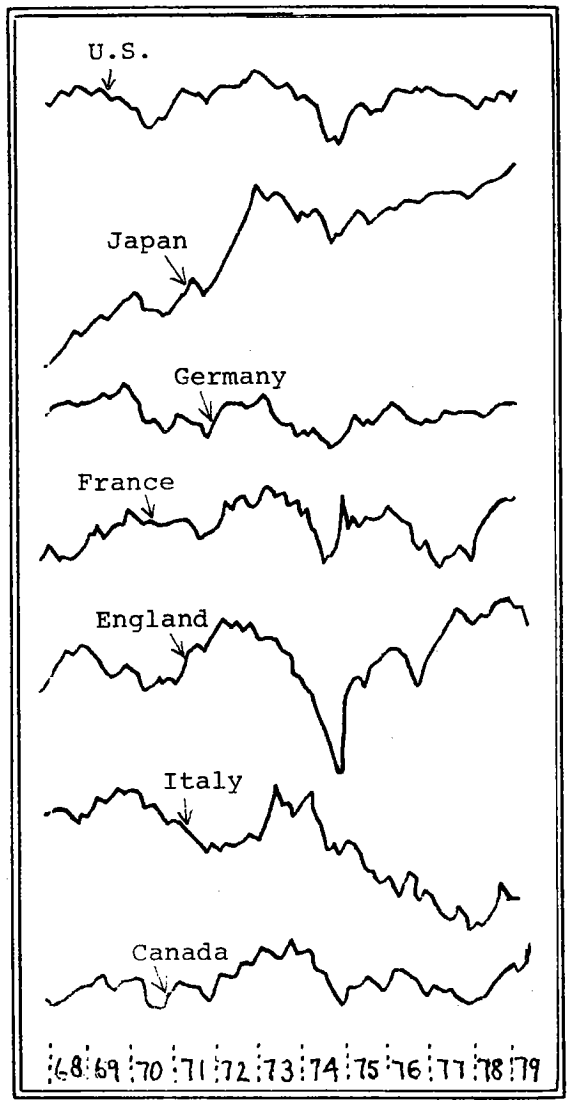
One explanation of what we're seeing today is provided via new research by my good friend, Milo Hamilton, Editor of *Commodities Magazine.* This chart shows the ratio of the CMI commodity index to gold. The ratio is now down at the .44 area, the **same area where it bottomed in mid-1975.** The ratio is saying that either gold is too high or commodities are too cheap. The ratio has now reversed its declining trendline and is heading up. This means that if gold averages $250 for 1979-80, the CMI commodity index could double. If gold averages 175, the CMI Index could still rise from its current 315 area to about 400.

CURRENCIES, FOREIGN MARKETS: The yen is weak and has broken to new lows for the move. The Swiss franc and the German mark, recently weak, may now be gathering strength for a new attack on the dollar–but it is too early to tell. Study the accompanying chart of the three currencies. The drama is graphically shown there–and the verdict is not quite in.

The major stock markets of the world are moving in divergent directions with Japan and France outstanding, Italy moving off an extreme low, England probably breaking down, and Germany moving sideways. But with oil problems mounting, I expect to see dramatically different profiles on this chart within a matter of months.

On the political front, I believe we are seeing the pendulum swing away from US power and influence in the Mid-East and strongly towards (Islam) nationalism. The big question is: is Saudi Arabia next on the "hit" parade. The sheiks have to be getting very nervous at what they see in Iran. As I see it, the US must deregulate the domestic oil industry and fast. Gasoline in this country is headed over the $1 a gallon level anyway, but it's totally insane to muzzle our domestic industry in the face of what is occurring





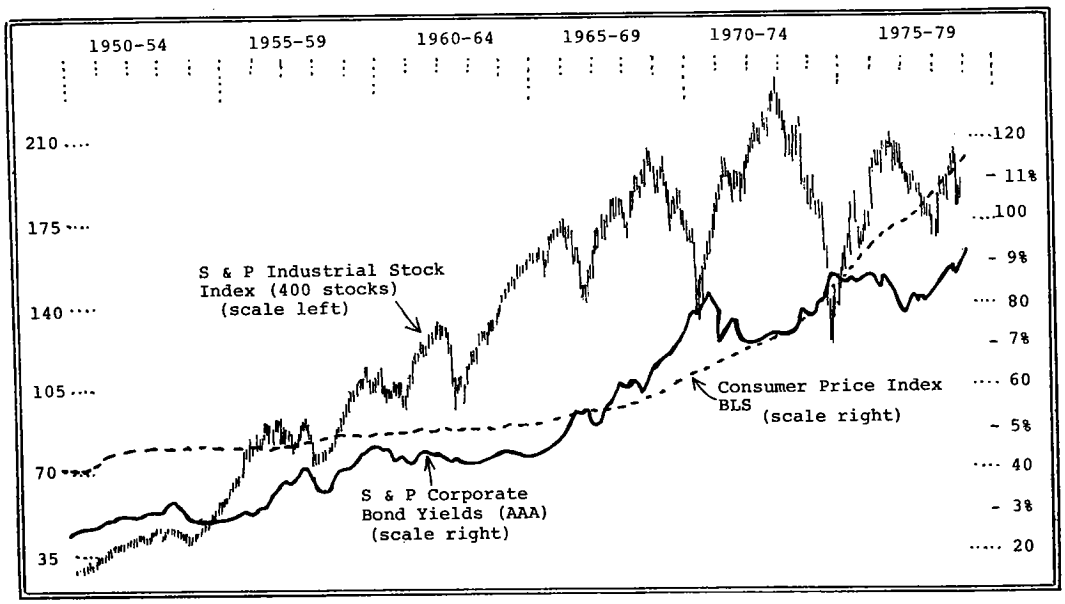
in the mid-East. But as someone said, if God wanted the US to have sufficient oil, he never would have allowed the creation of the US Department of Energy!

Russia and China are now jockeying for leadership of the Communist world and more specifically–Asia. So far, it's been limited muscle-flexing and lots of threats, and I think it's going to remain that way. After all, the Communist leaders are not insane (as Hitler was), and they know that a big war is a no-win situation. And they want to win. One thing is clear: China (with a quarter of the world's population) is now directly challenging Russia for leadership of the Communist world. A second thing is clear, having used up its money and courage in the wrong place (Viet Nam), the US has become the world's biggest pussycat.

PRICE OF INFLATION: Here's a chart that may tell it all. We're looking at the S&P 400 Industrial Stock Index charted monthly from 1950 to the present. On the same chart I have placed the Consumer Price Index and the yield line for S&P's AAA Bond Index.

What is immediately noticable is that the CPI has moved relentlessly higher on a path which accelerated during the 1960's and has accelerated at an even steeper rate during the 1970's. Since interest rates are a function of inflation (the greater the inflation, the greater return a money lender wants on his investment), the yield on AAA bonds continues to climb.

The 400 Stock Average has been the one to suffer during the past decade. We see the 400 topping out during 1973, and this



Average has not been higher since. What has happened? My guess is that the attraction of AAA bonds at 9% is siphoning off money that would normally be earmarked for the stock market. Since S&P's highest grade (AAA) bonds now provide a yield of 9.2% (January average) and the S&P 400 Industrials average a yield of 4.99%, it is clear that one must have a mighty good justification for buying stocks. At these prices, the stock purchaser is buying an item that must double its yield on average to match the yields that are now readily obtainable in bonds! And this is a period which is late in the cycle at a time when the Government is ostensibly fighting inflation.

My own belief is that the year 1973 represents the approximate point where inflation became *a minus* for the stock market rather than a plus. After 1973 the forces of inflation became more of a destructive force on savings than a profitable force on earnings. During the 1970's corporate liquidity and productivity slipped steadily under the twin pressures of rising debt and galloping inflation. And the question which every businessman and economist asks is, "How do we get off the inflation-debt treadmill without going into a massive recession?" This writer hasn't yet come up with an answer. I do know one thing however: many systems have survived through periods of deflation and that includes the US. But no system has ever survived unabated inflation.

KILLER: I've always suspected this, but now there seems to be some measure of truth to back it up. I'm talking about the thesis that stress can kill you, and this article from the November 10 L.A. Times was so important that I wanted to include it. I think it pertains to every one of us, and I think it's worth discussing.

I've always felt that no investment position is worth losing sleep over. If you find yourself losing sleep over investments, then your "insides" are telling you that you are either too heavily invested or invested on the wrong side of the market. Solution—sell. There's no other solution. Second step—search your psyche and try to determine why you positioned yourself as you did, and why you held that position.

My own theory is that many people "get something" out of stress. What they are getting may vary, but I believe there is a death wish or at least a secret desire to flirt with death that motivates people. I put many big speculators, gamblers, criminals, race car drivers, stunt men, etc. in that group. These people are flirting with "super-stress" and as such they are also flirting with death. They are literally tossing a coin with life on one side and death on the other.

Now I know from experience that a good many of my subscribers are tossing that life-death coin. People are constantly calling to tell of their "stress problems." One man has a $25,000 loss in S.African gold shares, and he's still hanging on. Another man still is loaded with silver shorts, and he's taking big losses. A woman had speculated in long-term bonds, and is now frantic as she looks at her losses.

I try to write these Letters from a common sense standpoint. Harry Truman used to say that "if you can't stand the heat, stay out of the kitchen." In the markets it's not all that polite. When the heat gets intense and you're positioned incorrectly, they blast you out of the kitchen—and the building as well.

Some subscribers, many of you, follow my advice fairly closely. Others follow me with variations (often good ones). And still others do their own thing, while simply keeping one eye on what's written here. Good enough. But remember, the fellow

Stress Alone Can Kill, Expert Says

Research Shows It Can Cause Attacks in Healthy Hearts

BY LOIS TIMNICK
Times Human Behavior Writer

ST. LOUIS—The killer factor in heart attacks is stress, not clogged arteries alone, a Baylor University neurophysiologist says. And stress by itself may be sufficient to trigger lethal rhythms even in healthy hearts.

The idea is not new: The mind's power over the autonomic nervous system is evident even in primitive voodoo curse deaths, and the link between stress, heart attack and "sudden death" has long been suspected. But now sciences say they have biological proof of the brain's contribution, and some clues as to how it exerts its effects.

The next step, James E. Skinner told scientists attending the annual meeting of the Society for Neuroscience here Wednesday, is the development of an "antistress pill" for persons at risk for heart attacks—those with known coronary heart disease, high blood pressure or elevated cholesterol levels, a family history of heart problems, or those who are heavy smokers.

Meanwhile, he cautioned that such persons should avoid stressful life changes wherever possible. Tranquilizers have harmful side effects, he said.

Skinner said his Houston laboratory blocked the coronary arteries of a group of pigs, the animal whose cardiovascular system most resembles man's. Some of them had been subjected to physical or psychological stress, such as being placed in unfamiliar surroundings or receiving mild electric shocks to the skin.

The stressed animals died within a matter of minutes. The animals not under stress did not die, even when the major blood supply to their hearts was blocked.

"We found that the psychological factor was necessary for the occlusion (blockage) of the coronary artery to produce ventricular fibrillation, the death-causing component of heart attacks," he said. Ventricular fibrillation is a kind of wild fluttering of the heart muscle, in place of the rhythmic contractions that normally enable it to pump blood to the brain and other parts of the body.

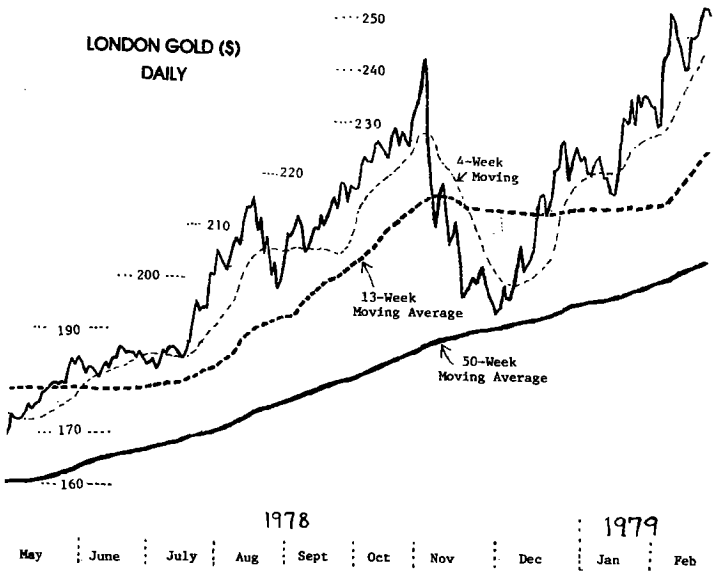
"It may be that brain states alone can be sufficient causes of the initiation of ventricular fibrillation without occlusion," he said, pointing to several other studies that indicate psychological stress or direct electrical stimulation of the brain can produce these aberrant rhythms.

Skinner then conditioned another group of pigs to respond to tones that warned of a coming physical shock, and mapped the path of this electrical response in the brain. Certain cells in the frontal cortex were found to send axons or fibers back through the hypothalamus to the brain stem, near the centers that regulate the cardiovascular system. By blocking this pathway with tiny cooling devices called cryoprobes, he was able to prevent heart rhythm disturbances in the animals.

"We reasoned that if we blocked the functioning of this brain system, we could prevent ventricular fibrillation even though the animal was still stressed," he said. "What this means is that having a blood clot in a coronary artery does not cause you to die. A psychological stress factor needs to be present."

who knows himself and makes small profits is a lot better off than the guy who is flipping a coin in an attempt to make big profits (which often turn out to be big losses). So my message is please—stay away from the stress position, the position that causes you to stay awake nights, the position that makes you feel that "hand gripping your guts."

Greed almost always gives way to fear in the markets. Don't ask my why, but I find that the greedy investor almost always ends up pacing the floor at night. The markets arrange it that way. So think it over.



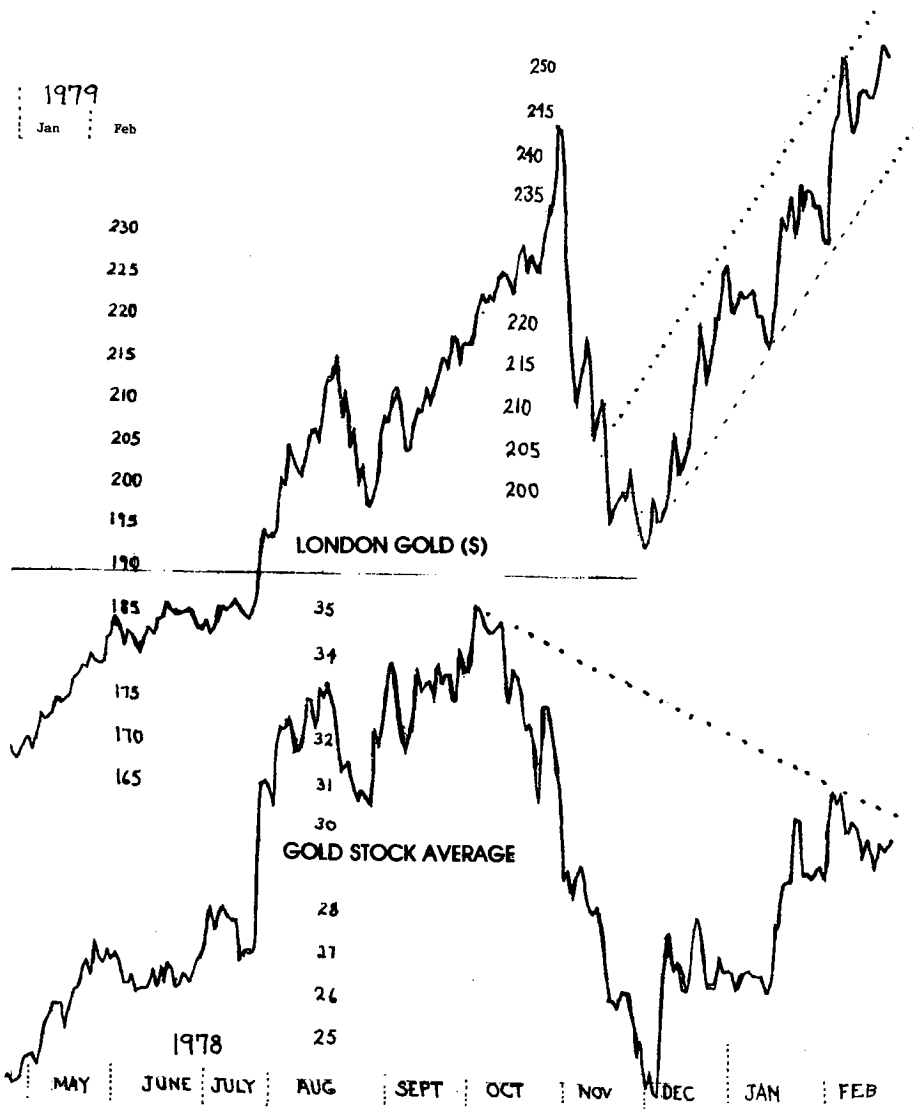
GOLD: As this is written, gold is about 4% above its high (second fix) of 242.75, recorded on October 30, 1978. A lot of action has been seen in national and international waters since last October, and gold has made a round trip down to 193 and back to just above the October peak. What does all this activity indicate?

I read a tremendous amount on gold: magazines, special hard-currency newspapers and perhaps 20 different advisory (hard-money) publications. The great majority of them are now talking of 280 to 300 on gold. Yet my own inclination is to play a "sit tight" game with gold here. If you have gold, sit tight. If you have a 5% or 15% or a zero position in gold, sit tight. Gold is not a market to "play" here, and the action is becoming tricky and the market has a "heavy" look to me. I've never seen so much news all tending to favor gold, and this makes me wonder whether at the 243 peak of October 30, gold did not discount most of its potential for the present.

Don't forget, most of the bullish news for gold (Iran, OPEC, China-Vietnam) has come since the November low for gold (193), yet the sum total of all that news has taken the metal only slightly above the October peak. At any rate, this entire performance rates a "sit tight" reaction from me.

I include here a chart of gold showing the 4-week, 13-week and 50-week moving averages. At present the 4-week stands at 244, the 13-week stands at 226 and the 50-week or primary trend line of gold stands at 204. If you draw a rising trendline connecting the November low, gold (if it declines) would meet that trendline at about 238. This is about 6 points below the 4-week MA of 244. Thus, the current critical area on the downside for gold is the 238-244 area. If on any correction, gold can hold above 238-244, I would say "all is well." A break below 238 would warrant profit taking, in my opinion. Note that at the 243 peak of last October, gold was about 27 points above the 13-week MA. That wide span was followed by the vicious correction to 193. At present the price of gold is about 25 points above the 13-week MA and this again is reason for caution.

My chart of gold bullion (daily) and the Gold Stock Average (GSA) documents the extraordinary **divergence** which continues to build between gold and GSA. Why did gold and GSA rally in tandem up to the October highs and why are the gold shares so reluctant now? This is a question that bothers me and a question that obviously must bother holders of gold shares. What's changed since October? Only time will tell, but here again we may have a case of the market telling us, "Sit tight, don't be rash." Divergent action in the market can be likened to the action of a student who is trying to build a house. If he doesn't put the foundation in correctly, he may have to tear the whole thing down and put it up again the right way.



Nevertheless, gold has the singular property of being real money. And gold is an integral part of a diversification program for the 1970's and '80's. Therefore, gold should not be treated like "just another security." In this era of politicial lies and manipulations, a gold coin in the hand is worth most of the thoughts and promises that come out of Washington in a week. And the real crisis has not yet arrived!

NOTES & QUOTES: I feel almost guilty about being here in San Diego as I read the weather reports around the nation. Just spoke to long-time buddy Peter Gimbel who tells me that in all the years he's lived in NYC, he never remembers a cold spell as vicious and prolonged as the one to hit the City this Winter. Meanwhile, R. E. McMasters (publisher of "The Reaper") told me at the Ruff Conference last week that Montana had a solid month in which the thermometer never got above zero! R. E. swears he is not exaggerating. He also tells me that Montana is great "survival" country. Sure, R. E., if you don't freeze to death first!

* *

Foreign subscriptions have been rising here, with the biggest additions being new subscribers in Hong Kong and Singapore (which, I take it, is where the new big money is). It may interest my foreign subscribers to know that there are about 80 "blue chip" US stocks that are traded on the Zurich Stock Exchange. European subscribers may also be interested in the special investment advice and valuable tabulations provided by my brilliant friend, Dr. S. H. Dike of Albuquerque, NM. These are specially prepared for overseas investors. For details write to Performance Management Inc., Hirschgasslein, 40, 4051 Basel, Switzerland.

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I've dubbed the Carter Administration "the Surprised Administration" because everything that happens catches them either unprepared or surprised. You name it, inflation, interest rates, Iran, OPEC oil rise, the Mexican snub, the Chinese invasion of Vietnam, it's shock after shock for "Jimmy Carter and the Amateurs." I'm beginning to have daydreams of a coup in which Gerald Ford suddenly takes back the White House!

* *

I want to recommend strongly the big Economic Crisis Conference to be held March 16 & 17 at the Century Plaza, Beverly Hills, California. I do not, and never will take any commissions for tickets sold through me for anything. But the Conference tells me that of my subscribers who attend, 75% of their ticket price will go directly to the American Economic Council's lobbying activity towards a balanced budget, lowering of taxes and a return to the gold standard. The list of speakers at the Conference is formidable including Jim Dines, Alan Greenspan, Robert Bleiberg, Nicholas Deak, Jim Sinclair, Jerome Smith, Howard Ruff, yours truly, and on and on. Write to American Economic Council, 9301 Wilshire Blvd., Suite 304A, Beverly Hills, CA 90210. This promises to be an excellent affair. (213) 274-7175.

* *

Words from Robert Herring, Chairman of Houston Natural Gas: *"Our failure to make a strong US presence felt in the Middle East and the vacillation of our position on Iran caused the Saudis to lose face....The Saudis feel they have to realign with their neighbors and buy time by dealing directly with the Soviet Union..... If I were in charge of Soviet espionage in the US, I don't believe I could cripple the (oil) industry of this country any more effectively then we are doing ourselves."*

* *

From Dick Young (Young's World Money Forecast, 225 Franklin St., Boston, Mass 02110): *"During periods of recession, revenues collapse, while spending continues on as before. Within the immediately foreseeable future, Federal Government spending will be twice what it was during the third quarter of 1974. On the revenue side, my studies on mortgage debt and consumer installment debt indicate a total level of private indebtedness above twice what it was at the 1973 peak. During the next serious U. S. economic contraction, I believe the Government faces the prospect of financing an annualized budget deficit of well in excess of 100 billion dollars. The financing will come in concert with a probable base of double digit monetary inflation, price inflation and long-term interest rates. It is worrisome to envision what rate of monetary expansion or interest rates would be necessary to finance such a deficit."*

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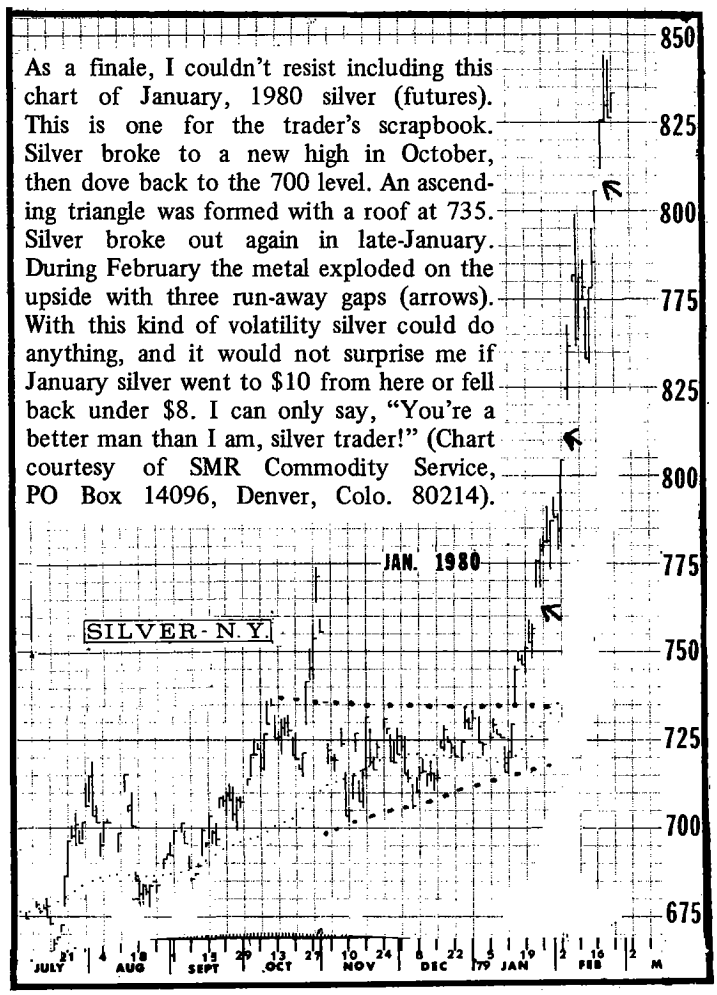
Ryan R. Russell will be one year old next week (March 7). He tips the scales at a solid 25 pounds, has blonde curly hair, blue eyes and makes it across the living room at a very fast 7 seconds (doing the advanced crawl). A few days ago he took his first five consecutive steps. He's progressing rapidly into the business of opening every drawer in the house, pulling everything off all shelves, and examining everything that sits, stands or moves. Ryan has already categorically stated that he's not going to be a market analyst but that he might be interested in botany. Actually, I infer the latter from his obsessive interest in my Cactus collection. Is there any stopping this boy?!



As a finale, I couldn't resist including this chart of January, 1980 silver (futures). This is one for the trader's scrapbook. Silver broke to a new high in October, then dove back to the 700 level. An ascending triangle was formed with a roof at 735. Silver broke out again in late-January. During February the metal exploded on the upside with three run-away gaps (arrows). With this kind of volatility silver could do anything, and it would not surprise me if January silver went to $10 from here or fell back under $8. I can only say, "You're a better man than I am, silver trader!" (Chart courtesy of SMR Commodity Service, PO Box 14096, Denver, Colo. 80214).

NEXT MAILING: March 14th